

PERAC AUDIT REPORT



Melrose Contributory
Retirement System



JAN. 1, 2006 - DEC. 31, 2007



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

March 23, 2009

The Public Employee Retirement Administration Commission has completed an examination of the Melrose Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and James Sweeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesies and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Reconciliation of Cash Accounts

The Bank of America checking and payroll accounts are not being properly reconciled to the Melrose Retirement System's general ledger (GL) cash balances. As a result, there continue to be significant un-reconciled differences between the bank and the general ledger. For example, the December 31 checking and payroll account variances were approximately \$66,000 and (\$15,000) respectively. At times, the payroll account is under-funded due to insufficient replenishment transfers being provided by the Board. Furthermore, the reconciliations are not being prepared by the City Treasurer's department in a timely manner. The auditor observed that the 2008 bank reconciliations were not prepared and submitted to the Board until the beginning of this audit in October 2008.

Similar bank reconciliation issues were also reported as audit findings in the most recent two audits of the Melrose Retirement System.

Recommendation:

The City Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. The bank balance must be reconciled and compared to the general ledger balance. All reconciling items must be specifically identified and explained in detail. A journal entry to adjust the general ledger balance to agree with the adjusted bank balance should be included as an essential function of each monthly reconciliation. This will eliminate cumulative adjustments consisting of variances that carry over in consecutive period reconciliations. The Board should ensure that the funds transferred to cover monthly retiree payrolls are sufficient to prevent an overdraft situation. The Treasurer and the Board staff need to work together in order to develop more accurate and timely information in support of the decision making process for proper cash management.

Board Response:

The Board is aware that this is a finding that has occurred previously for this system. The Retirement Administrator has been instructed to meet with the Treasurer on a monthly basis to ensure that all checking and deposit accounts are being reconciled to the bank. The Retirement Administrator will then reconcile the General Ledger balances to the checking and deposit account balances by the Treasurers office.

2. Military Service Fund

The Melrose Retirement System's general ledger balance for the Military Service Fund does not accurately reflect the individual member account balances. In addition, the City of Melrose has not been funding the members' military service contributions in a timely manner. As of December 31, 2007 the city has not funded five member balances totaling \$29,661.83. Some of these balances are several years past due.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation:

The Military Service Fund general ledger balance must be adjusted from its deficit balance of \$467.95. The correct balance must reflect the five individual member balances due from the city including interest. An accounts receivable should be set up to reflect the amounts due to the fund from the city. Finally, the City of Melrose must transfer the contributions provided for the members on military service leave on at least an annual basis. A common practice currently used includes these contributions as a separate component of the annual appropriation letter. Please refer to PERAC memo #39/2001 for further guidance.

Board Response:

The Retirement Administrator will see that there is an accounts receivable account set up to correctly reflect the amount due to the fund from the City of Melrose. This office will then bill the City of Melrose for the contributions provided for the members on military service leave on an annual basis.

3. Board Attendance

A review of meeting attendance by Board members from January 2006 through September 2008 revealed a significant level of absenteeism. Two members were absent for twenty-five and thirty-three percent of the meetings held during periods they were expected to be in attendance. The result is an attendance rate for two Board members that was below the seventy-five percent minimum considered reasonable to satisfy their fiduciary responsibility to the system.

Recommendation:

Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. It should be noted that Board members receive a stipend in consideration for regular attendance and participation at the monthly Board meetings. In instances where a significant level of absenteeism occurs, it is the Board's responsibility to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response:

The Board is disturbed that the percentages quoted in the audit do not reflect the actual audit period. The review of attendance was conducted from January 2006 to September 2008 while the actual audit only went through December 2007. If the auditors had conducted their audit through December 2007 the percentages quoted would have been considerably less. The Melrose Retirement Board now has a consistent meeting date of the last Wednesday of each month.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

		AS OF DECEMBER 31,	
		2007	2006
Net Assets Available For Benefits:			
Cash		\$387,819	\$5,042,793
Short Term Investments		0	0
Fixed Income Securities		2,126	5,163,925
Pooled Domestic Equity Funds		0	18,161,952
Pooled International Equity Funds		0	5,479,360
Pooled Global Equity Funds		0	7,867,404
Pooled Alternative Investment Funds		1,686,933	1,482,665
Pooled Real Estate Funds		5,818,325	5,423,325
Pooled Domestic Balanced Funds		0	9,919,170
PRIT Cash Fund		4,444,666	0
PRIT Core Fund		54,151,712	2,758,799
Interest Due and Accrued		2,549	77,315
Accounts Receivable		0	10,486
Accounts Payable		0	0
Total		<u>\$66,494,131</u>	<u>\$61,387,193</u>
Fund Balances:			
Annuity Savings Fund		\$13,285,384	\$12,325,047
Annuity Reserve Fund		6,045,338	6,584,756
Pension Fund		3,672,534	4,484,570
Military Service Fund		(468)	(644)
Expense Fund		0	0
Pension Reserve Fund		43,491,344	37,993,464
Total		<u>\$66,494,131</u>	<u>\$61,387,193</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2006)	\$11,573,101	\$6,919,816	\$5,600,912	\$3,644	\$0	\$31,700,603	\$55,798,076
Receipts	1,456,734	199,699	4,992,262	4,729	515,598	6,295,925	13,464,947
Interfund Transfers	(403,672)	411,245	0	(4,508)	0	(3,064)	0
Disbursements	(301,116)	(946,004)	(6,108,604)	(4,508)	(515,598)	0	(7,875,830)
Ending Balance (2006)	12,325,047	6,584,756	4,484,570	(644)	0	37,993,464	61,387,193
Receipts	1,785,078	186,105	5,454,030	8,854	508,896	5,497,880	13,440,843
Interfund Transfers	(271,165)	279,843	0	(8,678)	0	0	0
Disbursements	(553,576)	(1,005,367)	(6,266,066)	0	(508,896)	0	(8,333,905)
Ending Balance (2007)	<u>\$13,285,384</u>	<u>\$6,045,338</u>	<u>\$3,672,534</u>	<u>(\$468)</u>	<u>\$0</u>	<u>\$43,491,344</u>	<u>\$66,494,131</u>

STATEMENT OF RECEIPTS

		FOR THE PERIOD ENDING DECEMBER 31,	
		2007	2006
Annuity Savings Fund:			
Members Deductions		\$1,385,474	\$1,239,120
Transfers from Other Systems		300,364	137,145
Member Make Up Payments and Re-deposits		28,082	13,537
Member Payments from Rollovers		0	0
Investment Income Credited to Member Accounts		<u>71,158</u>	<u>66,933</u>
Sub Total		<u>1,785,078</u>	<u>1,456,734</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund		<u>186,105</u>	<u>199,699</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits		78,959	56,167
		211,028	237,855
Pension Fund Appropriation		<u>5,164,043</u>	<u>4,698,239</u>
Sub Total		<u>5,454,030</u>	<u>4,992,262</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service		8,678	4,508
Investment Income Credited to the Military Service Fund		<u>176</u>	<u>221</u>
Sub Total		<u>8,854</u>	<u>4,729</u>
Expense Fund:			
Expense Fund Appropriation		0	0
Investment Income Credited to the Expense Fund		<u>508,896</u>	<u>515,598</u>
Sub Total		<u>508,896</u>	<u>515,598</u>
Pension Reserve Fund:			
Federal Grant Reimbursement		0	0
Pension Reserve Appropriation		0	0
Interest Not Refunded		2,163	2,997
Miscellaneous Income		7,823	13,849
Excess Investment Income		<u>5,487,894</u>	<u>6,279,078</u>
Sub Total		<u>5,497,880</u>	<u>6,295,925</u>
Total Receipts		<u>\$13,440,843</u>	<u>\$13,464,947</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2007	2006
Annuity Savings Fund:		
Refunds to Members	\$244,492	\$226,787
Transfers to Other Systems	<u>309,084</u>	<u>74,329</u>
Sub Total	<u>553,576</u>	<u>301,116</u>
Annuity Reserve Fund:		
Annuities Paid	972,054	946,004
Option B Refunds	<u>33,313</u>	<u>0</u>
Sub Total	<u>1,005,367</u>	<u>946,004</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	4,471,997	4,409,142
Survivorship Payments	340,401	341,746
Ordinary Disability Payments	126,035	122,975
Accidental Disability Payments	959,899	879,672
Accidental Death Payments	222,466	229,194
Section 101 Benefits	50,441	41,414
3 (8) (c) Reimbursements to Other Systems	94,829	84,461
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>6,266,066</u>	<u>6,108,604</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>4,508</u>
Expense Fund:		
Board Member Stipend	17,167	19,250
Salaries	119,563	125,557
Legal Expenses	11,171	15,214
Medical Expenses	76	121
Travel Expenses	5,473	4,206
Administrative Expenses	3,473	14,013
Furniture and Equipment	0	100
Management Fees	262,011	268,358
Custodial Fees	14,272	24,440
Consultant Fees	35,000	35,000
Rent Expenses	0	0
Service Contracts	36,571	5,579
Fiduciary Insurance	<u>4,118</u>	<u>3,761</u>
Sub Total	<u>508,896</u>	<u>515,598</u>
Total Disbursements	<u>\$8,333,905</u>	<u>\$7,875,830</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006
Investment Income Received From:		
Cash	\$111,832	\$75,437
Short Term Investments	533	0
Fixed Income	330,513	368,806
Equities	0	0
Pooled or Mutual Funds	617,615	867,689
Commission Recapture	<u>25,201</u>	<u>25,288</u>
Total Investment Income	<u>1,085,694</u>	<u>1,337,220</u>
Plus:		
Realized Gains	2,592,744	1,161,983
Unrealized Gains	8,187,792	7,570,150
Interest Due and Accrued - Current Year	<u>2,549</u>	<u>77,315</u>
Sub Total	<u>10,783,085</u>	<u>8,809,449</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	(11,373)	(4,663)
Realized Loss	(143,676)	(25,045)
Unrealized Loss	(5,382,187)	(2,969,404)
Interest Due and Accrued - Prior Year	<u>(77,315)</u>	<u>(86,029)</u>
Sub Total	<u>(5,614,551)</u>	<u>(3,085,140)</u>
Net Investment Income	<u>6,254,228</u>	<u>7,061,529</u>
Income Required:		
Annuity Savings Fund	71,158	66,933
Annuity Reserve Fund	186,105	199,699
Military Service Fund	176	221
Expense Fund	<u>508,896</u>	<u>515,598</u>
Total Income Required	<u>766,335</u>	<u>782,450</u>
Net Investment Income	<u>6,254,228</u>	<u>7,061,529</u>
Less: Total Income Required	<u>766,335</u>	<u>782,450</u>
Excess Income To The Pension Reserve Fund	<u>\$5,487,894</u>	<u>\$6,279,078</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$387,819	0.6%	100%
Short Term	0	0.0%	100%
Fixed Income	2,126	0.0%	40-80%
Pooled Alternative Investment Funds	1,686,933	2.5%	5%
Pooled Real Estate Funds	5,818,325	8.8%	10%
PRIT Cash Fund	4,444,666	6.7%	100%
PRIT Core Fund	<u>54,151,712</u>	<u>81.4%</u>	100%
Grand Total	<u>\$66,491,582</u>	<u>100.0%</u>	

For the year ending December 31, 2007, the rate of return for the investments of the Melrose Retirement System was 11.13%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Melrose Retirement System averaged 12.37%. For the 23-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Melrose Retirement System was 9.96%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Melrose Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

May 29, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Melrose Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO Non-US Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Melrose Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO U.S. LBO & Corporate Finance Partnership Fund IV, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Melrose Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO International Partnership Fund IV, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Melrose Retirement Board may invest funds of the Retirement System (the “System”) in the fund known as the INVESCO Venture Partnership Fund III, LP (the “Fund”), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Melrose Retirement Board may invest funds of the Retirement System (the “System”) in the fund known as the INVESCO US Buyouts & Expansion Capital Partnership Fund III, LP (the “Fund”), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Melrose Retirement Board may invest funds of the Retirement System (the “System”) in the fund known as the INVESCO U.S. Venture Partnership Fund IV, LP (the “Fund”), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

June 28, 2001

16.08

I.Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above,

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Melrose Retirement Board's request as it applies to 840 CMR 17.04(1)(c) is approved.

2.Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Melrose Retirement Board's request as it applies to 840 CMR 17.04(6).

3.Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Melrose Retirement Board's request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

4.Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

Please be advised that this Supplemental Regulation as it exempts the Melrose Retirement Board from PERAC Regulations, only does so in relation to the INVESCO Funds that are the subject of the Supplementary Regulation. In all other circumstances, these Regulations apply to the Melrose Retirement Board.

The Supplementary Regulations approved herein are applicable only to the Melrose Retirement System's investment in the INVESCO Venture Partnership Fund III, L.P. Exemption from the regulations pertaining to prohibited investments is limited to the purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limiting currency risk of the funds where a commitment to a fund was made in a non-U.S. currency.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Melrose Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.96 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full-time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost-of-living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total cost-of-living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Melrose Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

April 24, 2000

Creditable Service

[Non-elected] Board Members and Commissioners [who are compensated] will be granted membership, and if the salary is less than \$2500.00 annually, shall be credited with one year of creditable service for every three years of service rendered. Creditable service of one year shall be granted if the salary is more than \$2500.00 per year. ...

This supplemental rule establishes rules for membership of compensated board members and commissioners in the City of Melrose and is consistent with the provisions of G.L. c. 32.

November 15, 1985

Creditable Service Part time employees credit will be granted depending on the work history of the employee. Two categories of employment are considered as follows:

A. Employees in this category will have worked on a less than full time basis throughout their years of service. For this category of employee, credit will be granted on the basis of one year of credit for each year of service. The pension thus computed will be on an equitable basis as a full time employee. The deciding factor in the computation of the pension will be the three-year average earnings.

B. Employees in this category will have worked on both a full time and part time capacity during their years of service. In this category, credit for service will be computed on an individual basis. For the full time service, the employee will receive one year of credit for each year of service. For the part time service, the employee will receive one year of credit for 2 years of part time service. An alternative computation of creditable service will be made by using actual hours worked. This computation will be made using a ratio the dividend of which will represent the hours to be worked. The percentage thus computed will be that portion of a year's credit for the part time work. Any interpretation of this paragraph shall be done on an individual basis by the Board.

July 1, 1985

Membership Employees working less than 20 hours per week are ineligible for membership. Permanent employees working for at least 20 hours per week and less than 35 shall be granted creditable service prated on the basis of a 40- hour week. If employed for at least 20 hours per week, and if this comprises the full time prescribed for the position, said part time employees shall be credited with 12 months membership service (i.e., Traffic Supervisors and School Lunch Employees). All regular permanent employees who work at least 35 or more hours per week shall be granted creditable service of 12 months for each year of employment.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

May 1, 2002

The Board adopted Supplemental Travel Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4), consistent with 840 CMR 2.00 et seq. (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Patrick D. Dello Russo

Appointed Member:	John O'Brien	Term Expires:	Until successor is named
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Elected Member:	John P. O'Neil	Term Expires:	12/31/10
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Elected Member:	Gerald O'Neil	Term Expires:	12/15/08
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Appointed Member:	Maria Zizza	Term Expires:	1/1/2009
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$50,000,000 Fiduciary,
Elected Member:)	\$1,000,000 Fidelity
Appointed Member:)	MACRS Master Policy
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2008.

The actuarial liability for active members was	\$35,448,310
The actuarial liability for retired members and inactives was	<u>62,932,336</u>
The total actuarial liability was	98,380,646
System assets as of that date were	<u>63,527,582</u>
 The unfunded actuarial liability was	 <u>\$34,853,064</u>
The ratio of system's assets to total actuarial liability was	64.6%
As of that date the total covered employee payroll was	\$15,463,779

The normal cost for employees on that date was 8.6% of payroll

The normal cost for the employer was 7.1% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: Varies by group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2008	\$63,527,582	\$98,380,646	\$34,853,064	64.6%	\$15,463,779	225.4%
1/1/2006	\$55,100,381	\$92,725,012	\$37,624,631	59.4%	\$13,847,540	271.7%
1/1/2004	\$52,131,208	\$85,568,128	\$33,436,920	60.9%	\$12,853,822	260.1%
1/1/2002	\$50,134,256	\$77,123,164	\$26,988,908	65.0%	\$14,167,844	190.5%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	15	11	13	14	37	21	10	12	7	5
Ordinary Disability	0	1	0	1	2	0	2	0	0	0
Accidental Disability	2	0	1	2	2	2		0	3	2
Total Retirements	17	12	14	17	41	23	12	12	10	7
Total Retirees, Beneficiaries and Survivors	334	338	350	345	375	388	389	395	408	404
Total Active Members	412	432	401	425	420	428	434	449	409	418
Pension Payments										
Superannuation	\$2,200,358	\$2,397,883	\$2,661,603	\$2,794,186	\$3,095,286	\$3,698,292	\$4,045,784	\$4,233,023	\$4,409,142	\$4,471,997
Survivor/Beneficiary Payments	220,523	238,165	256,648	277,881	292,728	296,954	309,779	330,179	341,746	340,401
Ordinary Disability	130,458	134,834	73,424	111,275	126,690	130,858	134,201	119,933	122,975	126,035
Accidental Disability	534,588	534,805	610,545	590,154	618,896	649,316	711,381	765,568	879,672	959,899
Other	197,954	211,412	231,850	240,364	277,974	305,816	356,521	350,812	355,069	367,735
Total Payments for Year	<u>\$3,283,881</u>	<u>\$3,517,098</u>	<u>\$3,834,069</u>	<u>\$4,013,860</u>	<u>\$4,411,575</u>	<u>\$5,081,235</u>	<u>\$5,557,666</u>	<u>\$5,799,515</u>	<u>\$6,108,604</u>	<u>\$6,266,066</u>

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